

VZCZCXRO8190
RR RUEHLH RUEHPW
DE RUEHIL #3691/01 3291406
ZNR UUUUU ZZH
R 241406Z NOV 08
FM AMEMBASSY ISLAMABAD
TO RUEHC/SECSTATE WASHDC 0362
INFO RHEHNSC/NSC WASHINGTON DC
RUEKJCS/SECDEF WASHINGTON DC
RUEHRC/DEPT OF AGRICULTURE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDOG/DEPT OF COMMERCE WASHDC
RHEBAAA/DEPT OF ENERGY WASHDC
RHMFISS/CDR USCENTCOM MACDILL AFB FL
RUEAIIA/CIA WASHDC
RUEHDO/AMEMBASSY DOHA 1605
RUEHLO/AMEMBASSY LONDON 9153
RUEHML/AMEMBASSY MANILA 3106
RUEHNE/AMEMBASSY NEW DELHI 4077
RUEHBUL/AMEMBASSY KABUL 9452
RUEHLH/AMCONSUL LAHORE 6407
RUEHKP/AMCONSUL KARACHI 0676
RUEHPW/AMCONSUL PESHAWAR 5260

UNCLAS SECTION 01 OF 03 ISLAMABAD 003691

SIPDIS

REFS:

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [EINV](#) [ETRD](#) [ELAB](#) [PGOV](#) [PREL](#) [PK](#)

SUBJECT: AMBASSADOR MEETS WITH AGRICULTURE SECRETARY ON FOOD AID

¶1. (SBU) Summary. On November 21 MINFAL Secretary Zia ur Rehman and Additional Secretary Shahid Hussain Raja requested an urgent meeting with Ambassador to discuss agricultural issues in Pakistan. The Secretary requested USG assistance on wheat imports, specifically access to the USDA GSM-102 program. The USDA Food for Progress agreement, USAID agriculture project and a proposed agriculture tax were also discussed. Post seeks guidance on the best way to facilitate Pakistan's ability to import U.S. wheat under the GSM-102 program. Post recommends that the 5 Pakistani Banks listed below be approved to participate in the GSM-102 program as soon as possible. Post also recommends providing a waiver to Pakistan for the export limitation condition under the Food for Progress agreement as soon as possible. Based on the inflows of private trade, the GOP now maintains that they need to import 1.5 million metric tons of wheat at an estimated cost of USD 350 million for this winter season. End Summary.

¶2. (SBU) This is an action request. See paragraph 14.

- - - -
GSM 102
- - - -

¶3. (SBU) On November 21 MINFAL Secretary Zia ur Rehman and Additional Secretary Shahid Hussain Raja requested an urgent meeting with Ambassador to discuss agriculture issues in Pakistan. Secretary Rehman specifically requested USG assistance with wheat imports. MINFAL is anxious to gain access to the USDA GSM-102 program in order to facilitate Pakistan's ability to purchase U.S. wheat. Raja stated there is some confusion with the GOP as to how much credit is available to Pakistan under this program. Local newspapers have been erroneously reporting that the USG has approved USD 200 million under GSM-102. EconCouns explained that under current USDA guidelines the total credit exposure for Pakistani banks is calculated at USD 48 million. Raja said he would like something in writing explaining Pakistan's ability to participate in the program.

¶4. (SBU) Secretary Rehman confirmed that the GOP still needs to urgently import another 1.75 million tons of wheat in order to meet the country's wheat consumption needs until the next wheat crop is harvested in April/May 2009.

¶5. (SBU) Comment: Pakistan has identified its annual wheat import

needs at 3.5 million tons, of which 1.75 million tons have been purchased to date. Due to recent changes in the government's wheat import policy, the GOP expects private traders to import about 250,000 tons of wheat before the next harvest. The GOP maintains that in order to purchase the balance 1.5 million tons of wheat (estimated cost: USD 350 million) international support will be necessary. [NOTE: On November 20, in response to the country's deteriorating wheat stock situation, MINFAL instructed the Trading Corporation of Pakistan to issue a tender for imports of 500,000 tons of white wheat. On November 24, no financing had been made available to purchase the wheat and, therefore, MINFAL has postponed the tender. END NOTE]

16. (SBU) Comment continued: Pakistan is eligible as a destination country under the GSM-102 Regional Program for the Middle East and Africa. However, Pakistani Banks covered under Pakistan's August 26 Credit Guarantee Assurance (a sovereign guarantee which specifically guaranteed National Bank of Pakistan, Habib Bank Limited, United Bank Limited, Muslim Commercial Bank Limited, and Allied Bank of Pakistan) are currently not eligible to participate in the GSM-102 program. Post recommends that these 5 banks under the Credit Guarantee Assurance be approved to participate in the GSM-102 program as soon as possible, thereby enabling Pakistan to purchase USD 48 million (200,000 metric tons) worth of wheat under the GSM-102 program.

- - - - -
FOOD FOR PROGRESS
- - - - -

ISLAMABAD 00003691 002 OF 003

17. (SBU) Rehman inquired about the "status of the wheat pledged by President Bush." EconCouns noted that the U.S. is still awaiting GOP approval of the USDA Food for Progress agreement draft which consists of 50,000 tons of donated U.S. wheat. Rehman explained that MINFAL and the Economic Affairs Division (EAD) have cleared the draft; however, the Ministry of Commerce has not yet approved the deal and is concerned over a provision in the Food for Progress agreement that apparently restricts Pakistan from exporting wheat while it receives donated wheat from the U.S. Raja further explained that the Ministry of Commerce believes that by accepting the Food for Progress wheat, the GOP will not be able to export any wheat during the current fiscal year. MINFAL would like to get clarity as soon as possible on whether the GOP is restricted only in exporting donated U.S. wheat and thus free to export domestic wheat if available after the immediate shortfall is addressed.

18. (SBU) Comment: AgCouns clarified later that Food for Progress prohibits the GOP to export wheat in the same fiscal year that it receives U.S. wheat donations except for exports bound for Afghanistan. AgCouns also noted that a waiver is necessary to bypass USDA restrictions on commercial wheat sales. As the GOP has not met its wheat production target in the past two years, Post feels that the probability of the GOP harvesting a bumper crop of wheat is low especially given the water and fertilizer shortages. Therefore, the GOP will most likely use all of its wheat for domestic consumption and not be able to export any wheat in the foreseeable future; however the ability to export wheat to increase the domestic coffers is a red herring for the GOP and Post would like to seek a waiver for this provision. Another option would be to provide a waiver just for private sector commercial transactions while still limiting government exports. This would send the right message to the GOP while still allowing Pakistan to benefit in the unlikely event that there is a wheat surplus. End Comment.

- - - - -
USAID AGRICULTURAL PROGRAM
- - - - -

19. (SBU) Secretary Rehman inquired about the status of USAID's recent agricultural study with Dr. John Mellor. Ambassador responded that USD 50 million is set aside for this project and that the consultant had highlighted extension services and research as the means to assist Pakistani agriculture. Ambassador mentioned that USAID is still in the design phase and noted debate as to

whether the program should have a concentrated geographic focus or if it should be spread throughout the country. The Secretary expressed his interest to provide input in the USAID program and that USAID should work "in concert" with MINFAL. Ambassador agreed and noted that a USAID representative would soon brief MINFAL on the details of the plan.

- - - - -
STRATEGIC DIALOGUE
- - - - -

¶10. (SBU) Secretary Rehman expressed his gratitude for including agriculture in the Strategic Dialogue. He also noted that the GOP had raised the wheat procurement price to a reasonable level to which the Ambassador expressed her appreciation. Additional Secretary Raja said that MINFAL took the wheat price increase "to the cabinet 11 times before it was finally approved." The Secretary asked about any follow up on the decisions following the agriculture discussions at the Strategic Dialogue and hoped to have greater interaction with USG officials on agriculture.

- - - - -
SUPPORT FOR A TAX ON AGRICULTURE?
- - - - -

¶11. (SBU) Ambassador asked about the internal MINFAL views on a proposed agriculture tax. Secretary Rehman noted that he did not attend the lively Cabinet meeting debate but voiced his opposition to an agriculture tax characterizing it as "not a prudent thing."

ISLAMABAD 00003691 003 OF 003

According to him, the agriculture sector is already being taxed by both provinces and through the income tax. He also noted that 90 percent of the farms in Pakistan are considered small holdings (less than 10 acres) and would suffer greatly from another tax.

¶12. (SBU) Additional Secretary Raja noted that he differed with his superior but that he is in favor of an agriculture tax. Raja believes that an agriculture tax should focus on the top 2-3 percent of farmers who are the large landowners but noted that any implementation will be difficult and must have a "proper mechanism and set up." The Ambassador inquired whether the GOP had tax assessment for agriculture. Raja replied that these exist and are currently used to collect the flat land tax that every farmer pays. Rehman chimed in saying an agriculture tax is "fraught with difficulties" because it would tough to figure out who needs to be taxed and at what amount. Noting that the small farmers do not keep track of all of their production costs, Rehman pointed out that none of the leading Western countries, including the U.S., have an agriculture tax.

¶13. (SBU) Comment: The wheat supply situation in Afghanistan is also dire, with stocks reportedly only adequate to meet consumption needs through January/February 2009. Since Pakistan supplies roughly 45 percent of Afghanistan's wheat consumption needs, an improvement in Pakistan's wheat supply situation will have a positive impact on the food security in Afghanistan. In the absence of significant wheat imports, prices will rise precipitously and will potentially lead to further civil unrest. Through the use of the GSM-102 program, the USG can facilitate the supply of a substantial volume of wheat into the region, thereby contributing to price stability and food security. If the GSM-102 program is to be used to address the regional food security needs of Pakistan and Afghanistan, a decision needs to be made soon, because the wheat will need to be purchased by mid-December if it is to arrive in time to meet the countries' consumption needs until the next wheat crop is harvested in April/May 2009. End Comment.

¶14. (SBU) ACTION REQUEST: Post requests guidance on the fastest way to facilitate sales of U.S. wheat to Pakistan under the GSM-102 program. Post requests clarity from USDA regarding the feasibility of providing a waiver to the export limitations included as part of the USDA Food for Progress agreement, and permit the GOP to export wheat from its next crop in the off chance that domestic surpluses actually materialize.

